Transportation in Canada

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TRANSPORTATION IN CANADA: CURRENT ISSUES

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INTRODUCTION

This paper summarizes the important current transportation issues in Canada. It is intended to provide an overview of the present problems and what factors might come into play for their resolution. The issues for each mode of transport are dealt with separately.

AIR

A. Proposed Air Canada-Canadian Airlines Merger

Some months ago, Canadian Airlines International (CAIL) attempted to forge an alliance, which included equity participation, with American Airlines. This attempt was not successful, mainly because Canadian could not provide sufficient cash or guarantees for servicing its operating cash flow requirements or its substantial long-term debt, much of which was the result of several acquisitions, including those of Canadian Pacific Airlines and Wardair. Canadian now had little choice but to entertain offers from Air Canada for a possible merger.

During the summer of 1992 the two carriers held discussions on the proposed merger and established a joint merger committee. On 8 October 1992, this committee set forth a pre-merger agreement to the Boards of Directors of both airlines for approval. While few details of the agreement were made public, airline analysts speculated that a new holding company would be formed to oversee the operations of both companies. Under the proposal, based on a one-for-one share swap, PWA (the holding company for CAIL) shareholders would own approximately 40% of the merged company and Air Canada shareholders 60%.

The proposed merger required approval by the National Transportation Agency (NTA) and the Bureau of Competition Policy. This, however, became a moot point when Air

Canada notified the National Transportation Agency that the transaction contemplated by the pre-merger agreement was unachievable; without giving specific reasons, the boards of both companies had rejected the proposed operating and financial plan. Concerns were also expressed about how the merged entity would be able to function under one holding company with two operating subsidiaries. Another area of contention was how to cope with a combined debt load of $7.7 billion. The two airlines together are losing approximately $2 million a day and their combined losses exceeded $340 million in the first half of 1992. Some analysts doubt that the merged carrier would be able to raise more than $1 billion in equity without government intervention.

As a result of the failed merger, CAIL is resuming talks with American Airlines in an attempt to form an alliance with that carrier. As was the case during previous negotiations with American, the key to any alliance is a stronger financial structure for CAIL. To attain this, CAIL had asked the federal government for loan guarantees totalling approximately $190 million in order to secure $500 million in new equity from its employees, American Airlines and a public share offering. On 24 November 1992, however, the federal government announced that it was prepared to offer CAIL only a $50-million loan, and suggested that other parties, including the provinces, PWA's creditors and its employees, might have to make further sacrifices to keep the airline alive. Canadian Airlines is continuing to negotiate with American and, at the same time, restructure its debt load with creditors. It should be noted that the government's $50-million loan goes against the November 1992 recommendation of the Royal Commission on National Passenger Transportation, which called for "governments to abstain from making any financial contribution that is intended to ensure the survival of air carriers."[(1)]

The present situation in the Canadian airline industry is one of change and uncertainty. Will Canada have one merged carrier, two carriers, one of which is partly-owned by American airlines, or just one Canadian carrier? Within this context a number of major issues will have to be addressed. These include: the implications for competition on major routes if there is only one air carrier (will re-regulation of fares and schedules be necessary?);

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(1) Canada, *Final Report of the Royal Commission on National Passenger Transportation: Summary*, Ottawa, November 1992, p. 16.

the continuation of good air services to smaller communities and remote areas; the inevitable job losses, which raise the question of whether the government should finance part or all of a "special" adjustment program; whether the government will be forced to "forgive" and/or guarantee a part or all of the immense debt of the merged airline if it is to have any chance of being competitive and profitable; and whether the government will have to introduce some form of regulation if only one carrier remains in business.

B. Open Skies Negotiations with the United States

Canada-U.S. transborder air services are governed by a series of bilateral agreements, the first of which was signed in 1949. Since that time there have been a number of new agreements covering both passenger and cargo services between the two countries. By the early 1980s there was pressure from both sides of the border for a new agreement that would allow for expanded, more competitive transborder air services. To this end, Canada and the United States began negotiating a new bilateral air agreement in early 1991. One of Canada's major priorities is to obtain a phased-in period for new transborder services for our airlines. They would be given the opportunity to operate on certain routes between major Canadian centres (Vancouver, Toronto and Montreal) and American points for a so-far unspecified period of years before any American carrier could serve these routes. Another priority is to obtain guaranteed access to major U.S. hubs such as New York and Chicago (including favourable slots and gates), where the major American carriers at present control a significant amount of the capacity. Furthermore, almost all major American airports are controlled and operated by local authorities, on which the American government is arguing that it cannot impose guaranteed access. The negotiations are still taking place, with no clear indication of when they will be finished.

C. Foreign Ownership

The 25% foreign ownership limit for Canadian airlines was included in the *National Transportation Act, 1987* largely because the U.S. has that limit. In this era of the globalization of air services leading to the creation of a small number of world class and

worldwide mega-carriers, the level of foreign ownership may become an important issue. One of the benefits of the proposed Air Canada-Canadian merger (with some debt-forgiveness) is that its size and route structure would make it more attractive to an alliance or partnership with a mega-carrier, who might, however, demand more than 25% of the ownership.

D. Airport Devolution

Transport Canada has recently concluded long-term lease and operating agreements with four Local Airport Authorities (LPAs): Vancouver, Edmonton, Calgary, and Montreal. These long-lease agreements provide for the LPA to operate and administer the various airports with its own employees. Air traffic control and safety remain the responsibility of the government but capital projects will be the responsibility of the Authorities. The question is how many airports can realistically be transferred to LPAs, taking into consideration the fact that most of these (Toronto excluded) do not make enough money to cover their operations, let alone capital expenditures. Moreover, it will not be evident for a few years whether the existing LPAs will be able to raise the necessary capital funds for airport infrastructure or whether they will appeal to the federal government for help.

E. Privatization

Terminal 3 in Toronto is the first privately financed, owned and operated air terminal in Canada and the government has called for bids to privatize Terminals 1 and 2. The issue here is whether all terminals at an airport should be privatized or whether, as a matter of policy, there should at least be one public terminal or, where there is only one terminal, one public section. Furthermore, should this concept be extended to the construction of new runways or access roads to new terminals?

MARINE

A. Port Competitiveness

Our major ports are facing a concerted, competitive challenge from U.S. ports for both U.S. and Canadian container traffic and bulk commodities such as export grain.

Currently, a good part of Montreal's container trade is with American containers, while a substantial amount of Canadian container traffic goes through U.S. west coast ports rather than Vancouver. Halifax handles mostly Canadian containers but is concerned that it could lose traffic to Montreal and eastern U.S. ports. A key issue is the ability of our two national railways to serve our major ports competitively with American railways. The railways argue that it is not a "level playing field" as their operating costs are at least 25% higher per tonne per mile than their American counterparts because of Canada's more difficult terrain, higher taxes on fuel and property, less favourable depreciation rates and a slower pace of line rationalization and branchline abandonment.

It is possible that, in order to ensure the competitiveness of the Port of Halifax, governments may have to consider direct subsidization of the CN mainline between Halifax and central Canada. The Nova Scotia government has already provided funds to CN for its double-stack container service. Another option, might be the sale of the mainline to a shortline operator, whose lower operating costs would enable the container and freight service to run at a profit.

B. The Canadian Coast Guard (CCG)

The Canadian Coast Guard is responsible for the safe, efficient and economical conduct of marine transportation and navigation. Its main functions are the operation and maintenance of marine navigation systems, ice-breaking and Arctic operations, a marine regulatory regime, search and rescue, and the operation of 526 public harbours and ports.

Cost-recovery levels for these services are very low; according to the Estimates for 1992/93, there are approximately 6,000 employees with a budget of $650 million and a vessel complement of 80 large vessels, 354 inshore work and rescue boats, 35 helicopters, three hovercraft and one fixed-wing aircraft.[(2)]

The challenge for the CCG has been to control its costs and carry out its activities more efficiently but with fewer resources. A major part of its operating budget and capital expenditure is devoted to its fleet. The CCG has developed and is implementing a three-year

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(2) Canada, *Transport Canada, 1992-93 Estimates Part III, Expenditure Plan*, Ottawa, 1992.

major fleet-restructuring plan to reduce crew sizes, de-commission ships and re-deploy the remaining fleet to maximize efficiency and effectiveness. The major issue for the Coast Guard is how to provide its services in the most cost effective and efficient manner.

C. Pilotage

There are four Pilotage Authorities: Pacific, Great Lakes, Laurentian, and Atlantic. They are Crown corporations created under the *Pilotage Act* with a mandate to be financially self-sufficient. They have a monopoly on pilotage services in all four regions. Canadian and foreign shipping interests have expressed increasing concern that the pilots are using their monopoly position to charge unrealistic fees and to obtain unrealistic increases in those fees. Furthermore, there is an acute problem for Canadian shipowners operating in the Great Lakes/St. Lawrence Seaway System. Within the jurisdiction of the Great Lakes Pilotage Authority (all the Great Lakes and the St. Lawrence River to Montreal), the Canadian laker fleet is exempt from compulsory pilotage, but within the jurisdiction of the Laurentian Pilotage Authority (the St. Lawrence River from Montreal to the Gulf of St. Lawrence), it is not.

There are two issues. One is the increasing cost of pilotage services and the inability of the Authorities to control their costs or the pilots' demands. The second issue is the Canadian laker fleet's claim that it should be exempt from compulsory pilotage in the St. Lawrence River. The fleet's Masters and officers are knowledgeable about the local waters and have made many trips through the system; indeed, most of the pilots are drawn from fleet personnel. Thus, they believe that there can be no safety reason to justify compulsory pilotage in the St. Lawrence River.

D. The Future of the St. Lawrence Seaway

The movement of export grain from Thunder Bay to the lower St. Lawrence tidewater ports is the lifeblood of the Great Lakes/Seaway system(GL/SS). The successful commercial formula has been grain downbound and iron ore upbound. Over the past decade, after achieving record tonnages, there has been a marked decline in volumes of export grain. This is because markets for grain have shifted to the Pacific, where Vancouver has become the

favoured port. In addition, it is argued that the grain freight rate formula under the *Western Grain Transportation Act* (WGTA) has diverted the flow of grain to west coast ports, to the detriment of Thunder Bay and the Seaway. There has also been a marked fall in volumes of iron ore as a result of the decline of the steel industry on both sides of the border in the Great Lakes region. As a result all of the factors, the St. Lawrence Seaway Authority has been incurring annual losses of approximately $5 million, which it has been financing from its capital reserve fund rather than seeking parliamentary appropriations.

What is the future of the GL/SS as a viable and competitive transportation route for the movement of bulk commodities? Will there ever be sufficient levels of traffic to provide the Seaway authority with an operating profit and sufficient funds for the necessary capital projects to ensure the system's safety and reliability? Will federal government financial support be necessary to ensure that the Seaway continues to be efficient and competitive?

E. The *Jones Act*

Under the *Jones Act*, all goods carried by water between U.S. ports must be transported by American-owned, built and crewed ships.(3) Canada's shipowners are convinced that they could compete in an open North American market and wanted the *Jones Act* to be discussed at the time of the Free Trade negotiations. The Americans refused, however, and an effort made during the North American Free Trade negotiations was likewise unsuccessful. Our shipowners continue to press the case for "open waters" negotiations.

SURFACE

A. Rail

1. The Future of Our National Railways

Government policy since Confederation has been to bind Canada through the construction and operation of a east-west national rail system operated by CNR and CPR. After several bankrupt railways were consolidated with the CNR in the early 1920s, the two systems

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(3) *U.S. Merchant Marine Act, 1920* (The "Jones Act"), Washington, D.C., 1920.

worked reasonably well, with some subsidization of CN, until after the Second World War. Beginning in the 1950s, both railways began to lose market share to the trucking industry, a trend that has continued and was exacerbated by deregulation in the 1980s. Today, both railways are struggling to lower their costs and to maintain, and possibly increase, their market share and meet the challenge of competition from their U.S. counterparts. The question is whether there is sufficient traffic to maintain two national railways. With 70% of railway business in western Canada, it is becoming increasingly clear that there is certainly not sufficient traffic to maintain two national railways east of Montreal. Some rationalization will be required in the near future.

CN will be faced with a substantial loss on its railway operations for 1992. It is carrying a high debt load and if losses continue into 1993 the government may well have to consider another recapitalization in order to maintain CN's viability. It should be noted that a study of the long-term needs for rail infrastructure in Canada is being done by the Transportation Association of Canada and is expected to be completed soon. The intention is to define the national rail network that is essential for railway freight and passenger services. This study could be the basis for a government policy on the future of our two national railways and how that might be assured. It could be through continued competition, track and route sharing, a merger through privatization or government ownership, or public control of the rail infrastructure whereby the government bought the track and the right-of-way and rented it out to the railways, as is the case in Sweden.

2. Branchline Abandonment

Deregulation gave the railways more" freedom to move" but somewhat restricted their freedom to manage in connection with branchline abandonment. They can abandon only up to 4% of their total network each year and the process, in their view, is expensive and time consuming. Furthermore, the grain-dependent branchline network in western Canada is frozen until the year 2000. The railways want more freedom and less restrictive rules for abandonment and the prohibition for abandoning grain lines lifted.

An alternative to the abandonment of the line would be selling it to a shortline operator. Shortline operations in the United States are quite numerous and, for the most part,

successful, but it is not clear that there is sufficient traffic in Canada to support the same proliferation of such operations. Both railways are, however, keen to encourage and support shortline operations as an alternative to abandonment.

3. Cost Containment

As noted earlier, several studies have indicated that Canada's railways have operating costs at least 25% higher per tonne per mile than their U.S. counterparts.[4] One major reason for this is the difference in the taxation levels in the two countries. Canadian railways pay higher taxes on fuel and property and have less favourable depreciation rates. They are asking governments for some relief, arguing that this is necessary if they are to compete with U.S. railways.

4. Expansion into the United States

Because of deregulation and the Free Trade Agreement, Canadian railways are establishing themselves through ownership and alliances in the U.S. market. CN has alliances with Burlington Northern, Norfolk Southern and the Union Pacific railroads. CP Rail has integrated operations with the Soo Line and the Delaware and Hudson railroad companies. They argue that they must adjust to north-south trading patterns, particularly in view of the North American Free Trade Agreement. The question is what impact this significant shift in focus and priority will have on the traditional domestic east-west trading regime. For example, will some Canadian traffic be diverted to a partial movement through an American route, or will Canadian railways concentrate resources in the U.S. market to the detriment of the Canadian system?

5. *Western Grain Transportation Act (WGTA)*

The movement of grain to export positions is likely the most regulated commodity in Canada. Since 1897, when the *Crow's Nest Pass Act* was passed, the government has regulated and controlled grain freight rates. By the 1970s there was a substantial gap between these Statutory Rates and the actual costs of shipping grain and the railways were sustaining huge losses; the situation was critical.

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(4) R.E. Lawless, *Integrated Trade: A Canadian Perspective*, Ottawa, September 1990.

The government's response was to enact the WGTA in 1983. It provided for the continued regulation of freight rates and a subsidy based on the difference between what the producer paid to ship grain in 1982 and the actual cost of shipping grain in 1982. This subsidy (the "Crow Benefit"), paid to the railroads on an annual basis, is currently $720 million. For the crop year 1992-93 the total freight rate is $32.12 per tonne, of which the producers' share is $11.98 and the government's $20.14. The WGTA rate-setting formula contemplates that as the cost of moving grain rises and the volumes increase the government's share, except for an inflation adjustment, will remain unchanged and the producer will pay for an increasing proportion of the annual freight.

The issues here are whether the subsidy should continue and, if so, how it should be paid. There has been debate over whether the government, in these times of fiscal restraint, can afford to continue to pay the subsidy. Furthermore, overshadowing this concern, is the question of whether, under a new GATT arrangement, such an "export" subsidy would be permissible. Concerning the method of payment, it is argued that the "Crow Benefit" should be paid to the producer rather than the railways. It is claimed that this would increase the efficiency of the entire grain handling and transportation system, significantly expand western livestock production, aid western Canadian diversification efforts, and have minimal effects on total grain output.

6. VIA Rail

Since January 1990, when 50% of its network was cut, VIA Rail has made significant progress in reducing its subsidy, while improving services both in the Quebec City-Windsor "corridor" and on the transcontinental route. It appears, however, that there can be no further reduction in subsidy without a further major cut in services. Conversely, any expansion of VIA services would mean a higher subsidy. The government is reviewing the very high subsidization of VIA's remote services but has so far reached no decision on what, if anything, should be done to reduce it. Certainly, there is no possibility that VIA will make enough money to pay for the acquisition of the very costly new equipment and locomotives. Will the government be prepared to provide the necessary funds for this equipment?

7. High-Speed Rail Passenger Services

Over the past few years, there has been considerable debate on the introduction of high-speed rail passenger services (HSR) in the Quebec City-Windsor corridor. The European experience demonstrates that there are really only two HSR technologies. One, the Swedish X-2000 train, is designed for upgraded, existing electrified track, and the other, the French TGV, for new, dedicated electrified right-of-way and track. While the infrastructure costs for the X-2000 are less than those for the TGV, both options will require substantial capital funds.

Canadian studies have demonstrated beyond doubt that HSR in the corridor is technologically feasible but that government funding will be required for the construction of infrastructure, as has been the case in Europe and Japan. The Standing Committee on Transport, in its report on its study on HSR, *High Speed Rail: the Canadian Concept, March 1992*, recognized that the government will have to be involved in any high-speed rail project; there is not a sufficient return for the private sector to undertake it alone. The Committee's major recommendation was that the federal government should not consider making a financial commitment to the development of HSR in the Quebec City-Windsor corridor until it has been clearly demonstrated that substantial and tangible socio-economic benefits will accrue to the public interest from such a project. Such benefits would include reduction of air pollution if enough people shifted from their automobiles and airplanes to HSR, less energy consumption, less airport and highway congestion and deferral of significant public investment in highway and airport infrastructure. The Committee concluded, however, that a "leap of faith" would be required for any such project and recognized that the government might want to proceed with high-speed rail for other reasons, such as the need to stimulate the economy. It should be noted, that the November 1992 Report of the Royal Commission on National Passenger Transportation recommended that "governments invest in high speed rail infrastructure only if the benefits to the passenger transportation system exceed the costs, and if taxpayers do not have to pay any operating subsidies."

In addition to the work of the Royal Commission, a $6-million federal-provincial private sector high-speed rail study has been launched. No report is expected until the beginning

of 1994 at the earliest, at which time the federal government would have to decide whether to make a financial commitment to "kick start" the project. Meanwhile, over the next few months, the X-2000 will be in revenue service for AMTRAK in the U.S. northeast corridor (Boston-New York-Washington). This demonstration project could be of some significance to the debate on HSR in Canada.

B. The Canadian Trucking Industry

1. Consolidation and Competition

As a result of deregulation, the Canadian trucking industry has gone through a painful and significant shakeout. Many individual owner-operators and small and medium sized companies have disappeared, either through bankruptcy or merger. Furthermore, it has been difficult for Canadian firms to compete with large, efficient American companies, which have flourished under deregulation. As is the case with the railways, our truckers complain that their costs, because of higher fuel and income taxes in this country, are significantly higher than those of their American counterparts. They feel they can compete, but only on equal terms. It should be added that the high dollar has had a detrimental effect on the Canadian trucking industry. The issue is how much more consolidation will take place and whether our industry, particularly in Ontario, will be able to compete with American carriers or whether the latter will achieve dominance in the transborder market.

2. National Safety Code

At the time of deregulation, the federal government committed itself to the development and coordination of a National Safety Code for Canadian truckers covering all provinces and territories. For the most part, this code is in place and is a good example of federal-provincial cooperation at the practical level.

C. National Highway Infrastructure Program

Four years ago, the Council of Transportation Ministers (federal and provincial) launched a comprehensive national highway policy study.[5] This has identified a national highway system, defined the minimum design and service standards desirable for a national highways system and provided costing options based upon that design as well as a continuous four-lane route across Canada. The cost estimates run from approximately $12 billion to at least $18 to $20 billion. The study has also canvassed the institutional and funding mechanisms used to build roads in Canada and elsewhere in the world. The major question is whether the money should come from the general taxpayer or from the users through a direct tax and/or tolls. A variation on this choice would be the privatization of road construction and operation, such as is being applied in England to certain motorway routes.

There is a growing consensus that rebuilding its national highway infrastructure is one of the major initiatives that Canada must take in order to compete, not only in North America, but in the global economy. The difficult question is who is going to pay for the program. Clearly, both levels of government will have to be involved and the funding mix (i.e., the proportion from general taxation, user fees, privatization) must be decided. The federal government and the provinces may well make a decision on a highway infrastructure program soon.

D. Urban Transportation

As urban transportation is the responsibility of provincial governments, the federal government has always been reluctant to get involved, especially in the recent years of fiscal restraint. There is, however, no constitutional barrier to the federal government's using its spending power to become directly involved in urban transit projects. We must ask whether it should be involved and whether it can afford to be. Certainly, it is acknowledged on all sides, that there must be substantial investment in urban transit from some source over the next few years in Canada.

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(5) Canada, Transport Canada, *National Highway Policy Study*, Ottawa, 1989.

OTHER ISSUES

A. Substance Use in Safety-Sensitive Positions in the Canadian Transportation Industry

In the spring of 1990, the government published a proposed comprehensive strategy for the prohibition and prevention of substance abuse (alcohol and drugs) in safety-sensitive positions in the federal transportation sector.(6) This was in response to an American announcement that, as part of "the war on drugs," it was going to introduce a random drug testing program in the U.S. transportation sector that would be extended to foreign individuals operating in the U.S., or working for the U.S., or working on U.S. equipment in their own countries.

This proposal was referred to the House of Commons Standing Committee on Transport for study and recommendations. After extensive public hearings, the Committee recommended that new legislation should provide for alcohol and drug testing of individuals in safety-sensitive provisions in certain circumstances: after an accident, at the time of regular medical examinations, in job applications and for just cause.(7) The other major recommendation was that random drug and alcohol testing should not be permitted. Since the regulatory régime for testing will be the heart of the new legislation, the Committee insisted that when the legislation is introduced it should be accompanied by a complete draft of the regulations.

The legislation and regulations are being prepared and are expected to be introduced soon. Obviously, there are significant human rights issues and the debate will focus on these as well as on the testing methodologies, procedures, accuracy and usefulness. Certainly, there is not the same urgency that prompted this initiative because the Americans have not so far attempted to apply their drug-testing régime outside the United States.

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(6) Transport Canada, *Strategy on Substance Use in Safety-Sensitive Positions in Canadian Transportation*, Ottawa, 1990.

(7) House of Commons Standing Committee on Transport, *A Study on Strategy on Substance Use in Safety-Sensitive Positions in Canadian Transportation*, Ottawa, 1990.

B. Cost Recovery/User Pay

Cost recovery has been a part of federal government transportation policy for some time. Two years ago, Transport Canada published a proposal for cost recovery in all modes.[8] One of the key issues is distinguishing the user costs for services from costs incurred by the government in the public interest. Another issue is how much involvement the users of these services, such as airlines and shipowners, should have in developing costing methodologies and setting cost levels. In addition, in order to ensure fairness and equity in any cost-recovery regime, it is necessary to identify the amount of "hidden" subsidization. For example, the railways argue that they pay for their own infrastructure while the truckers do not pay for the roads they use. In order to make possible fair competition between modes of transportation it is essential to know who is and who is not, subsidized and by how much. It is very difficult to do this, but the Royal Commission on National Passenger Transportation may try to do it or at least to indicate that this issue should receive the highest priority. All these basic issues have been raised by the transportation industry and are under consideration by Transport Canada, which has not yet introduced a cost-recovery regime.

C. National Transportation Vision/Policy

Since the MacPherson Royal Commission in 1960-61, people have been talking about the need for a national transportation policy.[9] Envisaged is a coordinated, efficient, integrated, competitive, multi-modal system that would meet the needs of both consumers and users. Ideally, the policy would provide a "level playing field" for all modes and government intervention would go to ensuring this, rather than distorting the marketplace or "skewing" users' choices through financial or regulatory support. For example, it is argued that because the WGTA freight rate formula does not reflect the true costs of shipping, it distorts the

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(8) Transport Canada, *Proposed New Cost Recovery Policy: Phase II Discussion Paper*, Ottawa, 1990.

(9) M.A. MacPherson and C.P. McTague, C.P., Canada, *Royal Commission on Transportation (1959-62)*, Ottawa, 1962.

directional flow of export grain. Another good illustration is the bus industry's claim that the continued high subsidization of VIA results in unfair competition. Clearly, the question is whether, in a large and diverse country with strong regional differences and interests, it is possible or indeed necessary to have a national transportation policy.

1. The Royal Commission on National Passenger Transportation

The Royal Commission, which was created in October 1989, released its final report on 19 November 1992. Emphasizing "user pay," the Report calls for the Canadian government to end its $5-billion-a-year subsidies and make passengers pay the full cost of road, rail, water and air travel. Withdrawal of federal subsidies, including those to airports, VIA rail, provincial highway-building, and ferries, would drive travel costs up an average of 7%, adding $3.8 billion to ticket prices by early next century, according to the Commission. The Report recommends that transportation policy be guided by four objectives: safety; protection of the environment; fairness to taxpayers, travellers and carriers; and efficiency. Services should be provided only where benefits to the individual traveller equal or exceed the cost, and given levels of service should be provided as cheaply as possible. Rather than answering specific transportation problems, the Report sets directions for future policy development. It advocates the application of free market forces to passenger transportation, but also suggests that if governments wish to continue subsidizing transportation for other reasons, they should not make travellers pay unrealistic costs. All such "other reasons" for which transportation systems might be developed -- national unity, job creation, regional development -- should be clearly identified and borne by taxpayers. The effects of adopting this type of approach would clearly be felt in the remote areas of Canada, which could face large increases in transportation costs if subsidies were eliminated. It is still too early to say what the government's response to the Report will be and which, if any, of the recommendations are likely to be implemented; however, these are the issues with which the government will have to deal in assessing the Commission's work and its applicability to Canada's transportation system.

2. *National Transportation Act* Review Commission

The *National Transportation Act* provides for an independent review of the effect and impact of the new Act on the transportation industry after four years. The Commission, which is not holding public hearings, will report in January 1993. Based upon its terms of reference as set out in the Act, it does not appear that the Commission can or will attempt to consider a new national transportation vision. Its findings, however, including probable recommendations for changes to the *National Transportation Act*, may contribute to the development of a national transportation policy.